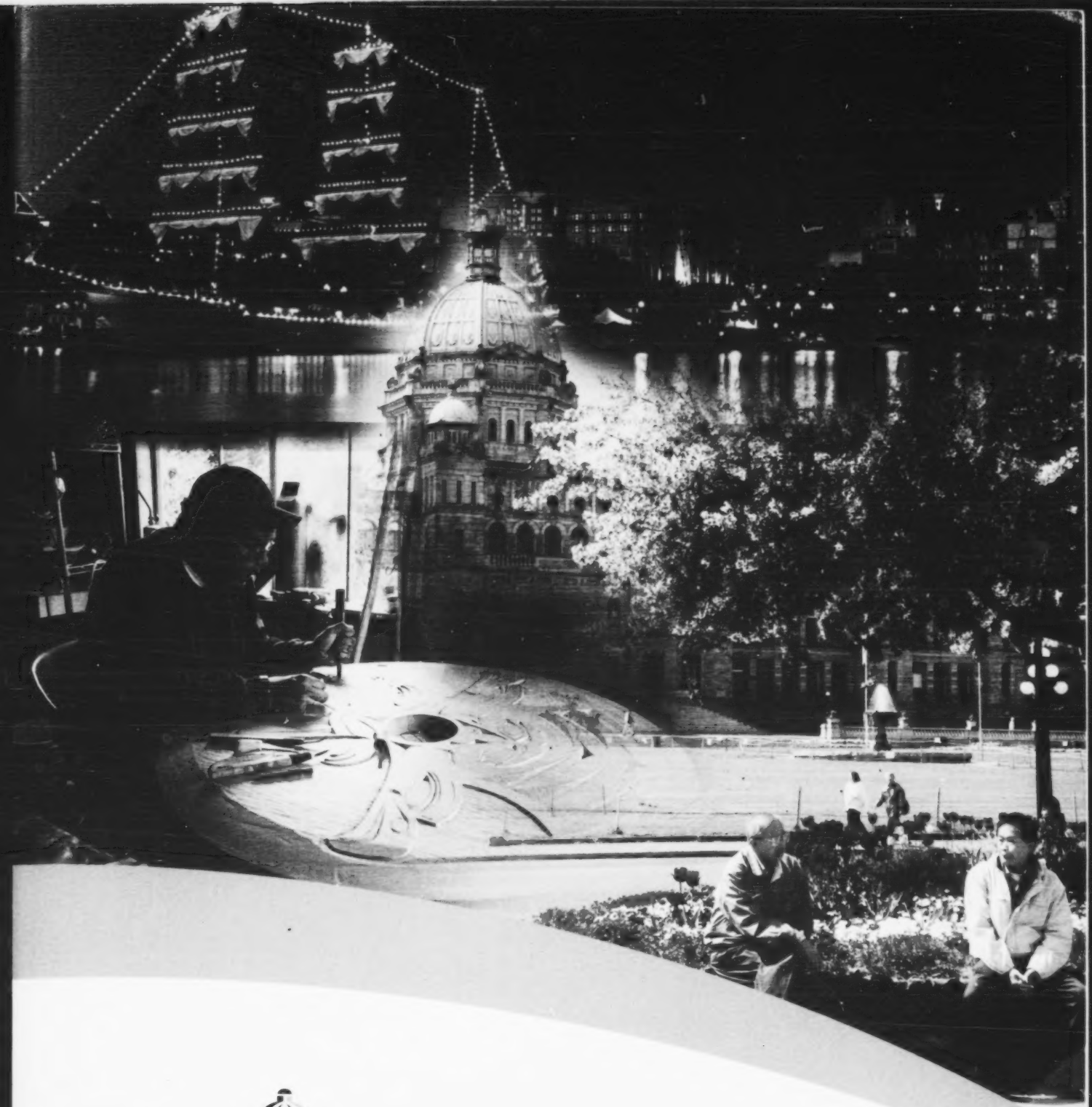

PROVINCIAL CAPITAL COMMISSION

2007/08 Annual Report

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BC 150 YEARS
The Best Place on Earth

PROVINCIAL CAPITAL COMMISSION

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CONTENTS

Letter of Transmittal 3

Message from the Chair 4

Message from the CEO 5

Organizational Overview 6

Year in Review: Highlights 8

Report on Performance 10

Risks and Sensitivities 14

Corporate Governance 15

Management Discussion and Analysis 20

Financial Statements 24

Contact Information 38

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VICTORIA, B.C.
JUL 18 2008

British Columbia Cataloguing in Publication Data
British Columbia. Provincial Capital Commission.
Annual Report. - 1984/85 - Annual.
Cover title.
Report year ends Mar. 31.
ISSN 0827-1089
1.British Columbia. Provincial Capital Commission.
2.City planning – British Columbia – Victoria Region.
3.British Columbia – Capital and capitol. I. Title.
JL435.Z43a 354.71100818
Rev. Aug. 1989

June 20, 2008

The Honourable Stan Hagen
Minister of Tourism, Sport and the Arts
Legislative Buildings
Victoria, BC V8V 1X4

Dear Minister:

On behalf of the Board of Directors of the Provincial Capital Commission, I am pleased to submit our Annual Report for the year ended March 31, 2008. The audited Financial Statements contained therein have been prepared in accordance with the *Budget Transparency and Accountability Act*.

Bill Wellburn, FCA
Chair

To the Honourable Stan Hagen,
Ministry of Tourism, Sport and the Arts:

This year's Annual Report builds on a major turning point reached last year in moving towards achieving the vision of the Provincial Capital Commission (PCC) – "connecting and celebrating the Capital with every British Columbian." We are pleased to report on our continued success, especially in the area of Outreach. Our province-wide Outreach strategy uses a range of traditional approaches along with new web-based programs that connect British Columbians from every part of the province.

The PCC continues to move forward with its property plan which is key to attaining our vision. The real estate assets that support the PCC's Outreach programming continue to receive the necessary attention and will be preserved and reinvigorated to optimize their value and to protect the special character of British Columbia's Capital. As the PCC is a self-sustaining agency, the revenue generated from our properties is critical to the long-term success of our Outreach programs.

As required by legislation, I report that the PCC's 2007/08 Annual Report has been prepared under my direction in accordance with the *Budget Transparency and Accountability Act* and the BC Reporting Principles. I am accountable for the contents of the report, including what has been included in the report and how it has been reported. The information reflects the actual performance of the PCC for the twelve months ended March 31, 2008 in relation to the February 2007 Service Plan. The measures presented are consistent with the PCC's mission, goals and strategies, and focus on aspects critical to the organization's performance. I am responsible for ensuring internal controls are in place to ensure performance information is measured and reported accurately and in a timely fashion.

All significant decisions, events and identified risks, as of June 16, 2008, have been considered in preparing the report. The report contains estimates and interpretive information that represent the best judgment of management. Any changes in mandate, direction, goals, objectives, strategies, measures or targets made since the February 2007 Service Plan was released, and any significant limitations in the reliability of data, are identified in the report.

On behalf of the PCC, I wish the very best to every British Columbian in this significant 150th anniversary year that marks the founding of the Crown Colony of British Columbia within the traditional territories of the First Nations people.

Bill Wellburn, FCA
Chair

To Our Stakeholders:

The PCC is pursuing its vision, "connecting and celebrating the Capital with all British Columbians," and we are now making significant and measurable progress toward our goals. In the second year of our innovative Student Travel Subsidy program, for example, applications grew by over 30%. This year we also doubled the number of historical videos posted on our website with our new BC150 Years series: we are especially proud of being perhaps the first government agency to seize the opportunity of celebrating BC150 Years with the airing of this series beginning late in 2007 and continuing for 24 weeks overall. Such achievements are now reported to stakeholders through our quarterly newsletter *Capital Connections*, which has published three issues to date.

The stewardship of our properties is also an important responsibility. This includes the optimization of revenues to finance our programs, and the capital maintenance of our property inventory to preserve and protect assets for future public use with a focus on public safety. In January, 2008, the Board approved renovation plans from the City of Victoria to complete tenant improvements to the Crystal Garden to facilitate use by the Victoria Conference Centre in the fall of 2008. Also in January, a pharmacy opened in the north retail space, and a seasonal business is now operating in the south retail space. At the Visitor Information Centre, recent investments include seismic upgrades to the clock tower, replacement of the elevator, and exterior painting. At Ship Point, landscaping improvements have improved public safety and enhanced the property's appearance. At St. Ann's Academy, the PCC has initiated a number of improvements to the grounds including the initiation of a successful Garden Volunteer program. 2007/08 was also a busy year for leasing activity with a number of new leases, extensions and renewals contributing to the increase and future stability of tenant income.

For the year just ended, the PCC is reporting a surplus of $143,608 on revenues of just over $3 million. This surplus, added to the one achieved last year, has enabled the PCC to take on a major celebration this coming summer: Festival 150, a weekend-long celebration of BC Day in August 2008, which will be perhaps the province's largest single event in the year-long BC150 Years celebrations. We are able to undertake this project only because of the effective governance and good management that have resulted in the PCC meeting or exceeding every performance target in our portfolio, including financial ones. The PCC continues to excel in balancing the complex challenges of self-sustainability, maintenance of heritage assets, and province-wide Outreach. We are proud to contribute to the achievements of this province, rightly described as "the best place on earth".

Ray Parks
Chief Executive Officer

PCC Head Office

Organizational Overview

The Provincial Capital Commission (PCC) is a Crown agency of the Province of British Columbia. The PCC was first created in 1956 as the Capital Improvement District Commission with the responsibility for an area that included the City of Victoria and the municipalities of Esquimalt, Oak Bay and Saanich. The District was later expanded to include a larger surrounding area. In 2003, the PCC's mandate was further broadened to include service to all British Columbians.

The PCC's activities are guided by the following vision, mission and values.

VISION

Connecting and celebrating the Capital with all British Columbians.

MISSION

- Delivery of programs that connect British Columbians to their Capital and foster pride and awareness of the diverse cultures and rich history of their province
- Responsible stewardship of public assets
- A self-sustaining Crown corporation.

VALUES

- Act with integrity by operating with openness, fairness and transparency
- Be respectful, inclusive and accessible
- Think, plan and act long-term
- Be socially responsible in everything we do by promoting long-term financial and economic sustainability, a healthy environment and the well-being of all citizens
- Balance the needs of the Capital and the province-wide mandate
- Recognize and support the diversity of British Columbia's cultures, landscapes and history
- Manage the balance between our heritage properties and our province-wide mandate.

ORGANIZATIONAL STRUCTURE AND ENABLING LEGISLATION

The PCC operates under the *Capital Commission Act* with the authority that focuses principally on real property and beautification throughout the Capital Improvement District. Mr. Bill Wellburn, FCA, is the Chair of the 14-member board and leads the Commission, which is responsible to the Honourable Stan Hagen, Minister of Tourism, Sport and the Arts.

CORE BUSINESS AREAS

The PCC has two core business functions:

- Delivery of Outreach and Engagement programs that connect British Columbians with their Capital, and the Capital with all British Columbians
- Stewardship of heritage, Inner Harbour and open space properties.

BUSINESS MODEL

The primary business of the PCC is to connect and celebrate the Capital with all British Columbians through a province-wide delivery of outreach and engagement programs. As a self-sustaining crown corporation, the PCC finances this goal through optimizing net income from its property assets.

BENEFITS TO BRITISH COLUMBIA

The work of the PCC benefits the public by:

- Connecting British Columbians with their Capital through innovative Outreach initiatives
- Taking the Capital to British Columbia and bringing British Columbians to the Capital
- Providing responsible and sensitive stewardship to many provincially-owned properties and heritage buildings that celebrate the Capital.

MARKETS SERVED

The PCC serves the following principal markets:

- Citizens of British Columbia
- Communities throughout the province
- Visitors to the Capital
- Teachers and students
- Interested parties wishing to learn about BC's Capital.

The Capital Online
Unit for grades 4/5 Social Studies

"Thank you, thank you, thank you. As a homeschooling mom, I find that there are such fun activities to learn American history but very little for our Canadian heritage. This is a wonderful start! All my children will explore your wonderful Victoria website."

– R.S., Errington

PRODUCTS AND SERVICES PROVIDED

These include:

- Programming to assist student groups from across the province to visit the Capital
- Partnerships with businesses, not-for-profits and the tourism sector to boost awareness and visitation to the province's Capital
- Educational and research support for students and teachers.

PARTNERS, CLIENTS AND STAKEHOLDERS

The PCC operates in an environment that includes other parties with mandated responsibilities, visions, and interests including: municipalities, other government departments, First Nations and other agencies including the Greater Victoria Harbour Authority, Tourism Victoria, The Royal British Columbia Museum and the private sector.

LOCATION

The PCC's headquarters is located at 613 Pandora Avenue in Victoria, BC. A number of programs for schools and the general public are offered at St. Ann's Academy located at 835 Humboldt Street in Victoria, BC.

STRUCTURE

The Commission employs a staff of 12 led by Ray Parks, Chief Executive Officer. Management and staff implement PCC strategies related to Outreach and Engagement, property assets and corporate support. In-house expertise and capacity requirements are supplemented by other agencies and the private sector.

View from Ship Point

Year In Review

APRIL 07

PCC launches a story contest for Aboriginal youth, in partnership with the Vancouver-based Healthy Aboriginal Network. Almost 100 entries are received province-wide. Winning entry comes from a 17-year-old in Prince Rupert, while runners-up come from Fort St. John, Merritt, Langley, Clinton, Creston, Hazelton and Dog Creek.

PCC launches a Garden Volunteer program at St. Ann's Academy.

Landscaping upgrade completed at Ship Point.

MAY – SEPT. 07

Applications arrive for the 2nd year of PCC's Student Travel Subsidy program. In the coming year, the PCC approves subsidies totalling more than $143,000 for 102 groups, representing more than 4200 students from as near as Duncan and as far as Atlin. The number of applications province-wide grew by 30% over the previous year.

PCC contributes in-kind property usage to a number of summertime events on the Inner Harbour, including Swiftsure, Dragon Boat Festival and Classic Boat Festival, as well as a children's Easter egg hunt at St. Ann's Academy.

JUNE 07

PCC co-sponsors a variety concert at St. Ann's Academy to celebrate National Aboriginal Day. This marks the PCC's first collaboration with "Cowichan 2008," the group spearheading the 2008 North American Indigenous Games.

PCC creates new backlit screens at Victoria's Visitor Information Centre to promote the Student Travel Subsidy program as well as school programs at St. Ann's Academy.

National Aboriginal Day

JULY 07

PCC support is crucial to two public celebrations on the Inner Harbour: Canada Day at the beginning of the month and "Northwest Deuce Day" at the end.

SEPTEMBER 07

PCC launches *Capital Connections*, a new quarterly newsletter, with publication of an 8-page Fall issue. More than 800 copies of each issue are distributed throughout the province, including to all provincial constituency offices, plus email and website distribution.

SEPTEMBER 07

At the annual conference of BC Communities in Bloom, this year held in Qualicum Beach, a PCC representative presents a Heritage Achievement award to the town of Hope. PCC sponsorship helps pay for travel costs of volunteer judges in this province-wide community-based beautification program.

PCC representatives speak at the Canadian Capital Cities Organization annual conference in Regina, and are awarded the opportunity to host the conference in 2008

Dragon Boat Festival

Sponsorship of Community Programs

"Thanks so much for your support. It makes me a proud resident of the city personally. It also motivates our members to work not only with university students but connect with the community in general."

–T.P., AIESEC Multicultural Fair

OCTOBER 07

A custom-made online Social Studies unit on the Capital, aimed at BC teachers and students in grades 4-5, premieres on the PCC website after over a year in development. Website activity tracking begins in the new year.

PCC staff and Board members make an Outreach visit to Prince Rupert, Terrace and Hazelton. The Terrace Standard runs a Capital trivia contest that attracts more than 300 entries. Receptions in Prince Rupert and Terrace are attended by over 120 guests, including First Nations leaders, local-area mayors, and an MLA. PCC staff visit school district offices and school principals to promote PCC educational offerings.

NOVEMBER 07

Broadcast begins for a new series of 12 "BC150 Years" video vignettes, and continues for 12 weeks. Produced by the PCC and the Shaw Cable network, each episode is 2-3 minutes long and is broadcast 20-50 times into a million homes province-wide. Promotional ads also air on eight cable specialty channels including CNN and A&E.

PCC initiates seismic upgrades to the Visitor Information Centre while Milestones Restaurant is closed for renovations.

DECEMBER 07

PCC posts a public Request for Proposals for a major BC150 Years event to take place on BC Day 2008. An event producer is selected in January.

PCC hosts a 10th anniversary reception to celebrate the rescue and renovation of St. Ann's Academy. PCC Board Chair Bill Wellburn is on hand to make some welcoming remarks.

JANUARY 08

PCC Board approves City of Victoria renovation plans to the Crystal Garden required for the Victoria Conference Centre. Renovations include interior modifications, additional heating and ventilation equipment and the addition of a service building in the rear lot. Completion is scheduled for the fall of 2008.

PCC publishes 2nd issue of *Capital Connections*, featuring an invitation from Stan Hagen, Minister Responsible, inviting all British Columbians to take part in this year's BC150 Years celebrations.

FEBRUARY 08

BC150 Years Videos

"I'm having a wonderful time using the vignettes from the Capital Commission right now as I'm introducing the creation of BC as a province in SS 10 at the moment. They are great stories and the students are really enjoying them."

– B.D. (teacher), Kamloops

PCC sponsors two awards for young filmmakers in the Victoria Film Festival's contest entitled "My Victoria: The Capital View". The two awards are for Audience Choice and for best film with a heritage theme. In addition, PCC Board member Pam Madoff serves on the adjudication panel.

MARCH 08

Rebroadcast begins province-wide of the PCC's "BC150 Years" videos, and continues for 12 weeks.

PCC completes new partnership agreements with the Royal BC Museum, BC Association of Aboriginal Friendship Centres, and Cowichan 2008 (North American Indigenous Games).

Easter Egg hunt at St. Ann's Academy

Report on Performance

The ten performance measures contained in this report have been chosen by the Board of Directors to highlight the PCC's most crucial aspects of performance. The targets and subsequent results provide meaningful insight into assessing the PCC's progress toward achieving its stated vision, delivering on its mission and living its values. Beginning on this page, we have outlined our goals from the past year and tracked our performance towards meeting these new goals. We have also set targets for each measure.

HOW WE MEASURE PERFORMANCE

The PCC uses a series of measures to guide business performance and progress. Some of these measures are tracked on a monthly basis; others are tracked quarterly, semi-annually or annually. The PCC has developed leading measures to determine if progress on meeting our goals is on track and to identify where adjustments need to be made. Measures are results-based and will help the PCC, shareholder and public to more accurately evaluate performance.

CONTINUOUS IMPROVEMENT OF PERFORMANCE REPORTING

The performance measures used are not static – the PCC is committed to continuous improvement of its performance measures and their results. The Board of Directors will continue to ensure that the course toward fulfilling the stated mission, vision and corporate goals is maintained and its values upheld. The PCC is committed to continuously improving and developing new or refined goals, strategies, performance measures and targets.

Goal 1 British Columbians embrace and take pride in the Capital

STRATEGIES:

- Implement a series of Outreach programs and Communications strategies to connect children and youth to their Capital and engage them in activities that manifest this connection
- Assess the impact and cost/benefit of Outreach strategies through internal monitoring and external surveys, and redesign or refine the products and processes accordingly
- Reach out to Aboriginal peoples by developing new programs, facilitating opportunities and working in partnership with representative bodies
- Implement "signature programs" that will be strongly identified as the corporate mark of the PCC
- Connect the regions to the Capital by providing the opportunities and support for having the Capital represented in the regions and a meaningful presence of the regions in the Capital
- Use the province-wide celebration of BC150 as a vehicle to launch or expand priority programs.

MEASURE 1: Description and cumulative number of new Outreach programs

Past performance	2007/08 performance		Future performance	
2006/07 4 new initiatives: Community Visits, Student Travel Subsidy, "Capital Connections" videos and the "Capital Online" for Social Studies 4/5	**Target** 6 new initiatives (cumulative)	**Actual** 2 new initiatives developed: PCC Newsletter and BC150 Years videos. (6 cumulative)	**2008/09** 8 new initiatives (cumulative)	**2009/10** 10 new initiatives (cumulative)

Importance: A diverse range of ongoing Outreach programs must be developed to achieve the PCC's vision of "connecting and celebration the Capital with all British Columbians," given the diverse nature of the Province's geography, history and population.

Goal 1 British Columbians embrace and take pride in the Capital

MEASURE 2: Level of participation in PCC Outreach programs targeted for children and youth

Past performance	2007/08 performance		Future performance	
2006/07 New measure	**Target** Baseline to be established	**Actual** Baseline established. (2374 students participated in student travel program from 60 schools.	**2008/09** +5% from baseline	**2009/10** +7% from baseline

Importance: PCC Board has directed staff to emphasize programs for children and youth: they are the future of the Province.

MEASURE 3: Number and geographic location of communities participating in PCC Outreach and PCC-sponsored events and activities

Past performance	2007/08 performance		Future performance	
2006/07 New measure	**Target** Baseline to be established	**Actual** Baseline established (57 communities participated)	**2008/09** +5% from baseline	**2009/10** +7% from baseline

Importance: To achieve the Vision of the PCC, the effect of Outreach programs must reach far beyond the Capital region, into all parts of the Province. This year's baseline has been established using communities participating in Student Travel, Community Visits, and Communities in Bloom.

MEASURE 4: Participant and community assessment of the quality and effectiveness of PCC Outreach programs

Past performance	2007/08 performance		Future performance	
2006/07 New measure	**Target** Qualitative Measure	**Actual** Results reported*	**2008/09** Results not available until after year end	**2009/10** Results not available until after year end

Importance: Feedback from communities around the province is essential to tailoring the PCC's Outreach programs to the needs and wants of the people. For some Outreach programs, client satisfaction surveys have been developed and will be reported next year.

07/08 Performance: Feedback is systematically collected from Community Visits and Student Travel Programs. A selection of commentary is included in this report.

Goal 2 Effective management of property assets to optimize revenues and opportunities on a self sustaining basis

STRATEGIES:

- Identify opportunities to optimize revenue from property assets
- Review those buildings and properties that are expense generating and implement plans to move toward a neutral or positive position
- Follow sound risk management practices by implementing plans to manage risks that could result in loss of value, revenue or cost exposure to the PCC through setting priorities for mitigation strategies considering cost/ benefit implications
- Complete seismic and structural upgrade of the CP Terminal building
- Continue stewardship role of PCC-owned property on the Capital's Inner Harbour and elsewhere.

Ship Point Upgrades

"I love what the PCC has done."

–Cst. Lori Beauvais, Victoria Police Department

Crystal Garden

MEASURE 5: Revenues from all corporate assets				
Past performance	**2007/08 performance**		**Future performance**	
2006/07 $3.1 million	**Target** $3.1 million	**Actual** $3.3 million	**2008/09** $3.23 million	**2009/10** $3.28 million

Importance: Achieving revenue targets is a measure of performance in optimizing revenues from property assets. Revenue growth is essential in expanding available resources for the province-wide delivery of Outreach programs.

07/08 Performance: Higher actual revenue was driven by growth in tenant income and parking lots.

MEASURE 6: Qualitative improvements to property management				
Past performance	**2007/08 performance**		**Future performance**	
2006/07 9 new improvements	**Target** >5 new improvements	**Actual** 10 new improvements	**2008/09** report annually	**2009/10** report annually

Importance: Qualitative improvements in property management are a basis for measuring the PCC's commitment to continuous improvement in meeting public expectations for stewardship over its property assets. These assets include heritage buildings, future development sites, parks and open space properties.

07/08 Performance: Current year improvements include seismic upgrades to the Visitor Information Centre, landscaping upgrades at Ship Point, the start up of a garden volunteer program and restoration of the heritage Novitiate Garden walkway at St. Ann's Academy. Other improvements related to public safety, leasing, and property maintenance.

MEASURE 7: Percentage of occupied lease space in heritage buildings				
Past performance	**2007/08 performance**		**Future performance**	
2006/07 92%	**Target** >95%	**Actual** 95%	**2008/09** >95%	**2009/10** >95%

Importance: The percentage of occupied lease space complements Measure 5 by demonstrating the effectiveness of managing property assets to optimize revenues. Core properties related to this measure include Crystal Garden, Visitor Information Centre, and the Belleville Street properties – CP Terminal building, water lot, ferry terminal facilities, and the Stores Building.

07/08 Performance: Actual occupancy rate of 95% for the current year is consistent with the target. Lease space at the CP Terminal Building, Visitor Information Centre and the Crystal Garden is fully utilized.

Goal 3 Sound governance and results-oriented management of the Provincial Capital Commission

STRATEGIES:

- Fully implement Board Resourcing and Development Guidelines
- Continue with policy setting agenda for the Board
- Adopt best practices standards for management and financial reporting and monitor accordingly
- Conduct annual evaluations of the Board, CEO and Board Chair
- Establish budget targets based on available financial resources.

Lower Causeway, Inner Harbour

MEASURE 8: Qualitative improvements in business processes and governance				
Past performance	**2007/08 performance**		**Future performance**	
2006/07 Baseline established (four qualitative improvements implemented)	**Target** report annually	**Actual** 6 qualitative improvements implemented	**2008/09** 3 improvements	**2009/10** 3 improvements

Importance: Measuring in this area is important to achieving continuous improvement and efficiency in business operations and governance.

07/08 Performance: 07/08 measures implemented includes improvements to the organization structure, business processes, and Board approved policies relating to property stewardship.

MEASURE 9: Board governance and corporate support costs as a percentage of budgeted revenues				
Past performance	**2007/08 performance**		**Future performance**	
2006/07 14%	**Target** <15%	**Actual** 13%	**2008/09** <15%	**2009/10** <15%

Importance: Measuring in this area is important to achieving continuous improvement and efficiency in business operations and governance.

07/08 Performance: Actual expenses of $0.4 million were consistent with budget and less than 15% of total revenue.

MEASURE 10: Self sustaining operations				
Past performance	**2007/08 performance**		**Future performance**	
2006/07 Achieved for operations	**Target** Achieve budget	**Actual** Achieved budget	**2008/09** Achieve budget	**2009/10** Achieve budget

Importance: The importance of this measure is to formally establish that the PCC will achieve the goals in its Service Plan through prudent management of available financial resources within its approved budget.

07/08 Performance: Operating surpluses realized in 07/08 and prior year are being utilized for BC150 celebrations. Capital maintenance in 07/08 was funded from retained earnings capacity.

Risks and Sensitivities

Risk management encompasses all activities the PCC undertakes in order that risks are identified, understood and managed so that strategic and operational objectives will be achieved. Strategic and business planning feature prominently among these activities. Senior management identifies risks through scanning and reviewing the PCC's strengths, weaknesses, opportunities and threats as part of the annual operations planning process. The development of strategies to achieve these objectives and the performance measurement system used to track progress provide signifi cant assurance that expected results will be achieved and that mitigation strategies have been utilized to the fullest extent possible.

The PCC's risk management activities also consist of clearly communicated authorities and accountabilities and a range of policies and procedures. The following table summarizes the PCC's operational risks and sensitivities and mitigation strategy for each.

AREA OF RISK	RISK/SENSITIVITY	MITIGATION
Outreach	Funding for Outreach programs is dependent on net revenues from commercial properties	Revenue growth from property assets exceeded budget target for 07/08. Outreach spending was increased in 07/08 with further planned increase in 08/09 based on anticipated revenue growth.
Properties – Capital Maintenance	Capital maintenance and heritage building remediation is conditional on source funding.	Crystal Garden - tenant improvement renovations initiated by the City of Victoria are in progress. Visitor Information Centre seismic upgrades have been completed. Upgrades for CP Terminal Building and the Stores building to be linked to re-development plans for Belleville ferry terminal facilities on the inner harbour, based on government direction.
Properties – Tenant Income	Belleville property revenue streams may be impacted by future Inner Harbour development Tenant income is sensitive to building occupancy and rent from percentage of sales, where applicable.	Belleville Task Force report completed; government assessing re-development options. Tenant income exceeded budget target for 07/08. Overall occupancy rate of 95% on target.
Staffing	Succession planning - 50% of PCC staff are eligible for retirement within 5 years.	Management team in place to facilitate succession plans, recruitment and alternate service delivery options.

Central dome of Parliament Buildings

Corporate Governance

OVERVIEW

The Provincial Capital Commission has a 14-member Board of Directors pursuant to the Capital Commission Act. Eight members including the Board Chair are appointed by Order in Council to represent the Province at large. The remaining six are appointed by the four core municipalities of Greater Victoria (two from Victoria, two from Saanich, and one each from Oak Bay and Esquimalt). The board of directors govern the PCC under the Capital Commission Act. Day to day management of the PCC is delegated by the Board to the CEO.

Sponsorship of Community Programs

"Your contribution assisted us in reaching our sponsorship goal for 2007 [Canada Day celebrations] and in delivering high quality Canadian entertainment."

–Mayor Alan Lowe, City of Victoria

The responsibilities of the Board include:

- Providing ethical leadership and ensuring integrity
- Fiduciary duty to the Shareholder
- Providing strategic leadership and stewardship and setting the strategic direction jointly with senior management.

The Chair has the following responsibilities:

- Providing leadership and guidance to the Board of Directors
- Establishing an effective working relationship with the Shareholder and management on behalf of the Board of Directors
- Acting as spokesperson and representing the PCC in conjunction with the CEO.

Directors have the following responsibilities:

- To exercise due diligence and reasonable care in carrying out their Board responsibilities
- To become familiar with the PCC, its service plan, its legislative and legal framework, and its management
- To prepare thoroughly for each meeting
- To act in best interests of the PCC
- To participate in Board and Committee meetings
- To devote sufficient time to Board matters, including orientation and ongoing development
- To adhere to requirements for ethical conduct as set out in the Board-approved Code of Conduct.

GOVERNANCE AND DISCLOSURE GUIDELINES

Best Practice Guidelines on Governance and Disclosure were issued by government in February 2005 and organizations were requested to meet the disclosure standards by April 2006. The PCC has complied with all 12 disclosure requirements. The disclosure includes terms of reference for the Board and its committees, the Chair and the CEO. Director biographies, director attendance records, the number of board and committee meetings held during the year and Board minutes are also disclosed. This information can be found at: http://www.bcpcc.com

GOVERNANCE PRINCIPLES

RENEWAL
Board recruitment is guided by a forward-looking definition of the skills and expertise needed to govern a corporation effectively. The Chair, Vice-Chair and six other Order In Council appointees are chosen according to the government's merit-based appointment process, which targets an open, transparent and consistent appointment process. The six municipal representatives are appointed directly by their municipalities.

ORIENTATION
The Board Chair and Governance Committee Chair provide new directors with a detailed presentation on the PCC's enabling legislation, PCC history, governance processes, Service Plan, and current issues. Senior management provides incoming directors with an understanding of the PCC's day-to-day operations.

CONTINUOUS GOVERNANCE IMPROVEMENT
Subscribing to the principle of continuous improvement, the Board evaluates performance annually to assure that the Board of Directors performs its due diligence and policy oversight roles in the most effective manner.

With the benefit of ongoing examination and awareness of best practices, Directors are able to monitor the effectiveness of its governance framework. The Board understands that while process and structure drive good governance, success can be assured only when the appropriate behaviours, attitudes and leadership are demonstrated at all levels of the organization.

INDEPENDENCE
Members of the Commission are required to act with honesty, integrity, confidentiality and in good faith. The PCC requires that each new director review and acknowledge his or her understanding of the principles expressed in the Conduct of Ethical Standards.

MANAGEMENT RELATIONSHIP
Directors engage with management in strategic planning sessions and approve the PCC's Service Plan. The Annual Operating Plan is presented by management and approved by the Board. The CEO and CFO report to the Board and committees on current issues and projects and respond to questions and discussion. The Board reviews corporate performance quarterly against objectives and targets outlined in the Service Plan.

SHAREHOLDER'S LETTER OF EXPECTATIONS

The Shareholder's Letter of Expectations is entered into between the Minister and the PCC. It confirms the shared understanding of the Government and the PCC on its corporate mandate, public policy issues, strategic priorities, and high-level performance expectations. The Shareholder's Letter of Expectations is reviewed and discussed with Government and updated as required. It is posted for public review at: www.bcpcc.com/archive/sle_pcc_aug18_2006.pdf

The Capital Online

"I really like the use of technology to deliver content to children. As a father of teenagers, I can say that kids today are very comfortable using technologies to access information."

– L.M., Kitimat

Enterprise Wharf, Inner Harbour

BOARD GOVERNANCE STRUCTURE

BOARD OF DIRECTORS
Provides strategic direction and oversees the conduct of PCC business and activities of management.

Chair: Bill Wellburn

Members: Barbara Brink, Beth Campbell, Allan Cassidy, Jane Durante, Chris Fairbank, Hy Freedman, Robert Gillespie, Rob Hunter, Wayne Hunter, Pamela Madoff, William Oppen, Geoff Young

The PCC has mandated four committees with specific responsibilities and accountabilities

EXECUTIVE COMMITTEE
Sets agendas for Board meetings and planning sessions, provides a forum for initial review of policy proposals and initiatives brought forward by management, leads the annual review of the CEO's performance and makes recommendations to the Board.

Committee Chair: Bill Wellburn

Members: Barbara Brink, Beth Campbell, Rob Hunter

Key Management Resource: CEO

FINANCE AND AUDIT COMMITTEE
Oversees the PCC's real estate inventory, financial management and reporting, and makes recommendations to the Board.

Committee Chair: Rob Hunter

Members: Allan Cassidy, Hy Freedman, Robert Gillespie, Geoff Young, Bill Wellburn (ex officio)

Key Management Resource: CFO

GOVERNANCE COMMITTEE
Reviews governance policies and procedures, oversees an annual evaluation of the Board, the Board Chair and Board Committees, and makes recommendations to the Board.

Committee Chair: Beth Campbell

Members: Wayne Hunter, Pamela Madoff, William Oppen, Bill Wellburn (ex officio)

Key Management Resource: CEO

PROGRAM RESOURCE AND COMMUNICATIONS COMMITTEE
Provides advice to management in developing PCC programs, oversees the implementation and effectiveness of programs and makes recommendations to the Board.

Committee Chair: Barbara Brink

Members: Jane Durante, Chris Fairbank, William Oppen, Bill Wellburn (ex officio)

Key Management Resource: Director, Outreach and Engagement

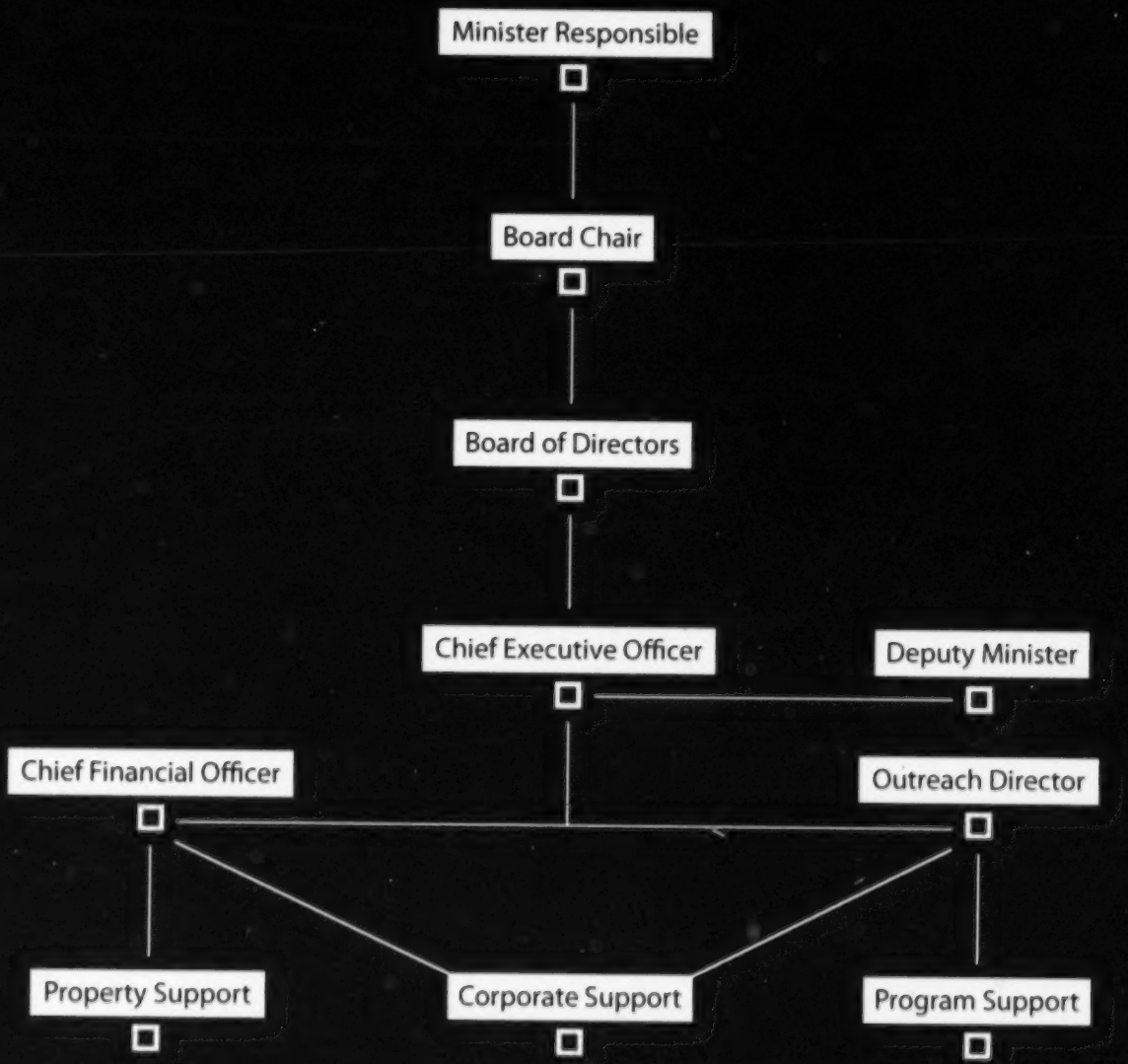
Directors and Management of the BC Provincial Capital Commission

DIRECTOR	POSITION	FROM	APPOINTED
Bill Wellburn	Chair	Victoria	Order in Council
Beth Campbell	Vice Chair	Penticton	Order in Council
Barbara Brink	Director	Vancouver	Order in Council
Allan Cassidy	Director	District of Oak Bay	Municipal Representative
Jane Durante	Director	Vancouver	Order in Council
Chris Fairbank	Director	Nelson	Order in Council
Hy Freedman	Director	Township of Esquimalt	Municipal Representative
Robert Gillespie	Director	District of Saanich	Municipal Representative
Rob Hunter	Director	Victoria	Order in Council
Wayne Hunter	Director	District of Saanich	Municipal Representative
Pamela Madoff	Director	City of Victoria	Municipal Representative
William Oppen	Director	Dawson Creek	Order in Council
Geoff Young	Director	City of Victoria	Municipal Representative

One seat vacant

Management Team

NAME	POSITION
Ray Parks	Chief Executive Officer
Rick Crosby	Chief Financial Officer
Denis Johnston	Director, Outreach and Engagement


Minister Responsible
Board Chair
Board of Directors
Chief Executive Officer
Deputy Minister
Chief Financial Officer
Outreach Director
Property Support
Corporate Support
Program Support

Management Discussion & Analysis

This Management Discussion and Analysis should be read in conjunction with the financial statements and accompanying notes. Amounts reported may be rounded for discussion purposes.

OPERATIONAL OVERVIEW

As part of the Commission's annual Service Plan update, the Board approves a three-year financial outlook for revenues, expenses, investment in capital assets, and retained earnings (also referred to restricted and unrestricted net assets). Based on anticipated revenues, a plan for expenses is set to achieve the goals in the Service Plan. The financial outlook is managed on a self sustaining basis.

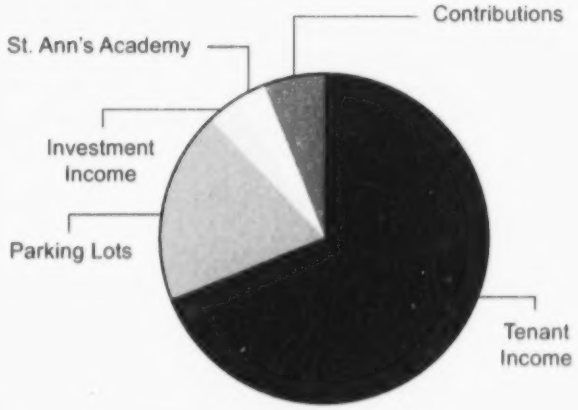
OVERVIEW OF 2007/08 REVENUE:

Revenue is primarily generated from PCC property assets.This includes tenant income received through lease and license agreements, and revenue from future development sites on the Inner Harbour currently used for parking lots. In 2007/08, these two sources account for 87% of total revenue. Revenue is also generated from St. Ann's Academy Interpretive Centre, investment income on cash and short-term investments, and deferred contributions. Revenue from deferred capital contributions includes assets that were divested from or funded by the federal and provincial governments in prior years. In accordance with generally accepted accounting principles, the initial contributions were deferred and a portion is recorded as revenue each year to match the amortization expense of the related asset acquired.

OPERATING REVENUE

REVENUE		
Tenant Income	$2,195,330	66%
Parking Lots	686,824	21%
St. Ann's Academy	94,544	3%
Investment Income	109,426	3%
Contributions	235,792	7%
TOTAL REVENUE	$3,321,916	100%

Current year operating results also include proceeds of $645,367 from a property disposition to the Province, net of expenses, which was reported separately.



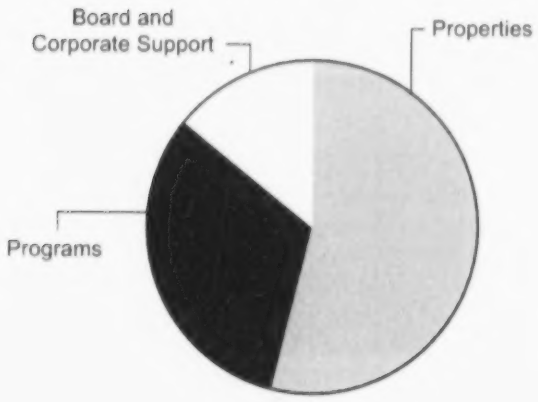
Ship Point at dusk

OVERVIEW OF 2007/08 EXPENSES:

Expenses are aligned with the Service Plan goals. A description of expenses for each goal is as follows.

- **Programs:** includes outreach expenses and administration ($923,098), and the St. Ann's Interpretive Centre ($263,454).
- **Properties:** includes property management administration ($464,957), and operating expenses ($770,582) and amortization ($355,250) for all properties excluding St. Ann's Academy and the PCC head office at 613 Pandora Avenue, Victoria. Operating expenses include utilities, maintenance and insurance. Property management activities include administration of commercial lease and license agreements, operating and capital maintenance of the PCC property inventory, special events coordination, and stewardship of the PCC property inventory.
- **Corporate Support and Governance:** includes corporate administration ($335,907), Board and Committee meeting expenses ($34,838) and amortization of head office building and equipment ($30,222).

In 2007/08, operating results also include Festival 150 expenses ($222,500) which are being funded through a Board-approved restriction of retained earnings.



OPERATING EXPENSES

EXPENSES		
Programs	$1,186,552	37%
Properties	1,590,789	50%
Corporate Support and Governance	400,967	13%
TOTAL EXPENSES	$3,178,308	100%

INVESTMENT IN CAPITAL ASSETS

The Commission's property assets are located within the Capital region and have a current assessed value of $116 million. The inventory includes heritage buildings, Inner Harbour ferry terminals and development sites currently used as parking lots. The inventory also includes parks located in several municipalities, and green space properties along the Trans Canada Highway view corridor to the Capital. Building remediation and capital maintenance is financed from the Commission's retained earnings, contributions from the federal and provincial governments, and tenants. Capital projects over $200,000 require the authorization of the provincial government through Order in Council.

Financial performance for 2007/08 was planned on the following key principles:

- Conservatism in revenue assumptions.
- Applying revenue growth to expand outreach and program delivery.
- Growing retained earnings capacity to sustain operations.
- Managing capital maintenance priorities on a risk based approach within available retained earnings capacity.
- Utilizing operating surpluses from 2006/07 and 2007/08 to provide core funding for Festival 150 event programming on the 2008 BC Day long weekend.

FINANCIAL SUMMARY ($thousands)	2005/06 Actual	2006/07 Actual	2007/08 Plan*	2007/08 Actual	2007/09 Plan**
Revenue	2,580	3,088	3,100	3,322	3,225
Expenses					
Programs	(700)	(865)	(1,100)	(1,186)	(1,200)
Properties	(1,432)	(1,480)	(1,550)	(1,591)	(1,555)
Corporate Support and Governance	(362)	(373)	(400)	(401)	(420)
Total Operating Expenditures	(2,494)	(2,718)	(3,050)	(3,178)	(3,175)
Excess of revenue over expenditure from operations	**86**	**370**	**50**	**144**	**50**
Property-land disposition, net of expenses	-	-	-	**645**	-
Funded from restrictions of retained earnings**					
BC150 Celebrations - Festival 150	-	-	-	**(223)**	**(377)**
Greenways and Beautification	**(105)**	**(35)**	**(95)**	-	**(95)**
Investment in Capital Assets (net of contributions)	**(1074)**	**(228)**	**(280)**	**(195)**	**(175)**
Retained Earnings (end of year) ***	**709**	**838**	**900**	**1,322**	**1000**
Full Time Equivalents (FTEs)	**11**	**11**	**12**	**12**	**12**

*The Plan is based on the Service Plan 2007/08 - 2009/10, updated for a Board approved increase for investment in capital assets and the retained earnings forecast reported in the prior year Annual Report.

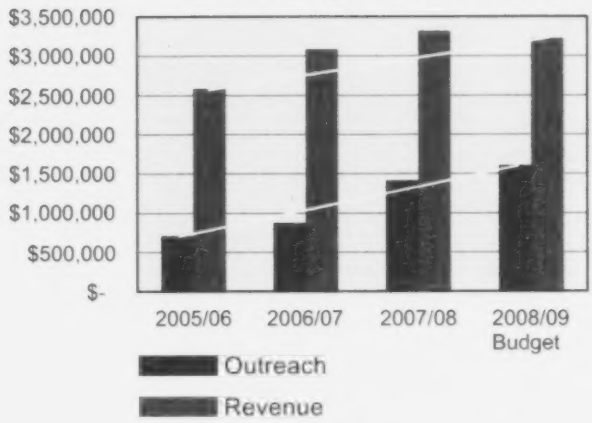
**The 2008/09 Plan reported in the Service Plan 2008/09-2010/11 has been updated based on actual 2007/08 Festival 150 expenses. The restriction for Greenways of $95,000 has been carried forward from 2007/08.

***Changes in actual retained earnings are reported through the Statement of Changes in Net Assets included in the Commission's annual financial statements.

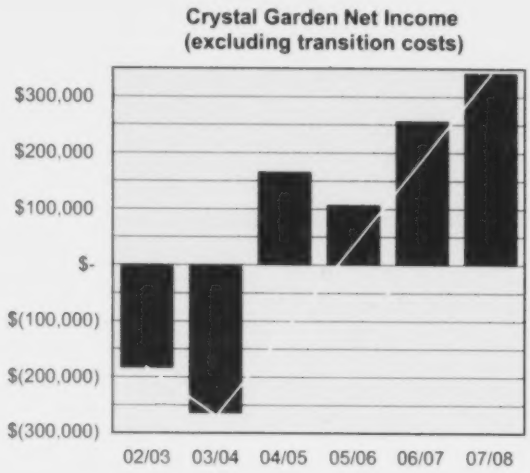
HIGHLIGHTS OF 2007/08 FINANCIAL PERFORMANCE:

- **Operatng surplus:** a surplus of $143,608 was higher than planned, due mainly to increased revenue from tenant income and parking lots.
- **Revenue:** total operating revenue of $3.322 million is up over $230,000 or 8% from the prior year.Since 2003, tenant income from all PCC properties is up over $800,000 or 60%.
- **Expenses:** total operating expenses of $3.178 million were higher than planned due to operational requirements, and were offset by higher than planned revenues. Total program spending of $1.186 million reflects a $300,000 increase from prior year. Growth in funding for outreach is being realized through measures implemented to expand the Commission's annual operating revenues.

Outreach Program Expenditures



- **Crystal Garden** – net income for the building was $342,286. The combined income for the last two years is approximately $600,000. Currently, the City of Victoria is in progress of renovations to convert its leased space for use by the Victoria Conference Centre, with anticipated completion in the fall of 2008.



- **Property**: land disposition: net proceeds of $645,367 were realized from a disposition of PCC land to the provincial government required for a highway interchange.

- **Festival 150:** the Board has restricted $600,000 in retained earnings generated from operating surpluses in 07/08 and 06/07 to provide core funding for Festival 150 event programming. Expenses of $222,500 were incurred to March 31, 2008.

- **Investment in Capital Assets:** capital spending of $0.2 million includes the seismic upgrade of the Visitor Information Centre clock tower, and capital maintenance on other PCC properties. There are no capital projects currently over $200,000.

- **Retained earnings:** total restricted and unrestricted retained earnings were $1.3 million at year end, up from $0.8 million the previous year. The net increase is primarily due to proceeds from the land disposition. Restrictions include $95,000 for the completion of the South Coast Trail Greenways project in Esquimalt, and a balance of $377,500 for Festival 150. A further $1.1 million from the federal government restricted for the Belleville Port Facility is reported as a deferred contribution.

- **Full Time Equivalents (FTEs):** the Commission is operating at its authorized staffing level of 12 FTEs. Half of the authorized FTEs are dedicated to program delivery (6). The balance are allocated to property management (3) and corporate administration (3). Seasonal auxiliary support staff are also utilized at the St. Ann's Interpretive Centre.

FINANCIAL OUTLOOK 2008/09: LOOKING AHEAD

In the updated Service Plan 2008/09 - 2010/11, the 2008/09 forecast is based on revenue of $3.225 million and expenses of $3.175 million. Retained earnings provide for investment in capital assets of $0.175 million, and the restrictions for Greenways ($0.95 million) and Festival 150 ($0.38 million). The PCC Board has directed forecast revenue growth from property assets into expanding the delivery of province-wide Outreach programs. The 2008/09 plan includes an increase in total program funding to $1.2 million (07/08 budget $1.1 million) which includes a Outreach budget of $950,000 (07/08 $890,000).

In meeting its property stewardship responsibilities, the Commission will continue to manage its assets and build reserve capacity to make the necessary investments towards maintaining and enhancing its heritage properties for future generations of British Columbians.

FINANCIAL STATEMENTS

Management's Responsibility 26

Auditors' Report 27

Statement of Financial Position 28

Statement of Operations 29

Statement of Changes in Net Assets 30

Statement of Cash Flow 31

Notes to the Financial Statements ..... 32—37

PROVINCIAL CAPITAL COMMISSION

Provincial Capital Commission
Financial Statements

Year Ended March 31, 2008

Management's Responsibility for Financial Reporting

The financial statements of the Provincial Capital Commission have been prepared by management in accordance with Canadian generally accepted accounting principles. Any financial information contained elsewhere in this report has been reviewed to ensure consistency with the financial statements.

Management is responsible for the integrity of the financial statements and has established systems of internal control to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and financial records are properly maintained to facilitate the preparation of financial statements in a timely manner.

Grant Thornton LLP has performed an independent audit of the financial statements of the Provincial Capital Commission. The Auditors' Report outlines the scope of this independent audit and expresses an opinion on the financial statements of the Provincial Capital Commission.

Ray Parks
Chief Executive Officer

Richard Crosby, C.G.A.
Chief Financial Officer

Victoria, British Columbia
May 5, 2008

Grant Thornton

Grant Thornton LLP
Chartered Accountants
Management Consultants

Auditors' Report

To the Members of the Board of Directors of the Provincial Capital Commission, and
To the Minister of Tourism, Sport and the Arts, Province of British Columbia

We have audited the statement of financial position of the Provincial Capital Commission as at March 31, 2008 and the statements of operations, changes in net assets and cash flow for the year then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2008 and the results of its operations and its cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.

The Commission has reported Board approved budget information in the statement of operations. This budget information is not included in our audit scope and should not be considered as part of the audited statements on which we have expressed an opinion.

Grant Thornton LLP

Victoria, Canada
May 5, 2008

Grant Thornton LLP
Chartered Accountants

Third Floor
888 Fort Street
Victoria, British Columbia
V8W 1H8
T (250) 383-4191
F (250) 381-4623
E Victoria@GrantThornton.ca
W www.GrantThornton.ca

Canadian Member of Grant Thornton International

Provincial Capital Commission
Statement of Financial Position

As at March 31	2008	2007
		(Note 11)
Assets		
Current		
Cash and short-term investments (Note 3)	$ 2,704,277	$ 2,127,038
Accounts receivable	80,886	152,166
Prepaid expenses	88,507	79,554
	2,873,670	2,358,758
Capital assets (Note 4)	17,817,065	18,023,196
	$ 20,690,735	$ 20,381,954
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 211,175	$ 246,974
Due to Province of British Columbia (Note 8)	192,853	91,300
Deferred revenue	69,406	59,971
	473,434	398,245
Deferred operating contributions (Note 5)	1,078,037	1,122,197
Deferred capital contributions (Note 6)	3,336,313	3,625,036
	4,887,784	5,145,478
Net Assets		
Invested in capital assets	14,480,769	14,398,151
Restricted for Greenways (Note 7)	95,000	95,000
Restricted for BC150 Celebrations (Note 7)	377,500	-
Unrestricted	849,682	743,325
	15,802,951	15,236,476
	$ 20,690,735	$ 20,381,954

See accompanying notes to the financial statements including:

- Commitments (Note 9)

Bill Wellburn
Chair, Board of Directors

Rob Hunter
Chair, Finance and Audit Committee

Provincial Capital Commission
Statement of Operations

Year ended March 31

	2008 Plan	2008 Actual	2007 Actual (Note 11)
Revenue			
Commercial activities:			
Tenants	$ 2,150,000	$ 2,195,330	$ 2,123,472
Parking lots	550,000	686,824	578,972
St Ann's Academy	100,000	94,544	104,530
Investment income (Note 3)	100,000	109,426	96,109
Contributions:			
Operating – Port Facility (Note 5)	40,000	44,160	40,426
Capital – contributed assets (Note 6)	160,000	191,632	145,271
	3,100,000	3,321,916	3,088,780
Expenses (Note 2)			
Programs:			
Outreach expenses and administration	890,000	923,098	646,181
St. Ann's Interpretive Centre			
Operating expenses and administration	195,000	247,932	202,388
Amortization	15,000	15,522	16,092
	1,100,000	1,186,552	864,661
Properties:			
Operating expenses	710,000	770,582	657,169
Property management and administration	455,000	464,957	495,112
Amortization	385,000	355,250	328,024
	1,550,000	1,590,789	1,480,305
Corporate Support and Governance:			
Corporate administration	315,000	335,907	302,146
Board and committee meetings	50,000	34,838	42,503
Amortization	35,000	30,222	28,545
	400,000	400,967	373,194
	3,050,000	3,178,308	2,718,160
Excess of revenue over expenses from operations	50,000	143,608	370,620
Property – land disposition, net (Note 4,8)	-	645,367	-
Programs funded from restricted net assets:			
BC150 Celebrations – Festival 150 (Note 7,9)	-	(222,500)	-
Greenways and Beautification (Note 7)	(95,000)	-	(34,758)
Total excess (deficiency) of revenue over expenses	$ (45,000)	$ 566,475	$ 335,862

See accompanying notes to the financial statements.

Provincial Capital Commission
Statement of Changes in Net Assets

Year Ended March 31, 2008

	Invested in Capital Assets	Restricted: Greenways	Restricted: BC150 Celebrations	Unrestricted	**Net Assets 2008**	Net Assets 2007
Balance, beginning of year	$ 14,398,151	$ 95,000	$ -	$ 743,325	$ 15,236,476	$ 14,900,614
Excess (deficiency) of revenue over expenses from operations	(112,246)			255,854	143,608	370,620
Property – land disposition, net (Note 4,8)				645,367	645,367	-
Programs funded from restrictions (Note 7,9):						
- BC150 Celebrations – Festival 150			(222,500)		(222,500)	-
- Greenways and Beautification Projects		-			-	(34,758)
Investment in capital assets	194,864			(194,864)	-	-
Board approved restrictions (Note 7):						
- BC150 Celebrations – Festival 150			600,000	(600,000)	-	-
Balance, end of year	$ 14,480,769	$ 95,000	$ 377,500	$ 849,682	$ 15,802,951	$ 15,236,476

See accompanying notes to the financial statements.

Provincial Capital Commission
Statement of Cash Flow

Year Ended March 31	2008	2007 (Note 11)
Increase (decrease) in cash		
Cash flow from operating activities		
Excess of revenue over expenses from operations	$ 143,608	$ 370,620
Exclude: non-cash revenues and expenses		
Revenue from deferred contributions	(332,892)	(391,724)
Amortization expense	400,994	372,660
Change in non-cash operating working capital	131,411	(184,315)
	343,120	167,241
Property - land disposition, net (Note 4,8)	645,367	-
Program disbursements from restricted net assets:		
BC150 Celebrations – Festival 150 (Note 7,9)	(222,500)	-
Greenways and Beautification Program (Note 7)	-	(34,758)
Net cash flow from operating activities	765,987	132,483
Cash flow from investing activities		
Purchase of capital assets	(194,862)	(445,961)
Exclude:		
Third party contributions	-	29,270
Net change in purchases payable at year end	6,114	30,754
Net cash flow from investing activities	(188,748)	(385,937)
Net increase (decrease) in cash and short-term investments	577,239	(253,454)
Cash and short-term investments, beginning of year	2,127,038	2,380,492
Cash and short-term investments, end of year	$ 2,704,277	$ 2,127,038

See accompanying notes to the financial statements.

Provincial Capital Commission
Notes to the Financial Statements
March 31, 2008

1. Purpose of the Commission

The Commission, established in 1956, operates under authority of the Capital Commission Act of British Columbia and is governed by an appointed board of directors. Eight directors are appointed through Order in Council by the province, and six are appointed by the four core municipalities of Greater Victoria. As a crown corporation, the Commission is accountable to the provincial government of British Columbia. The Commission is exempt from federal and provincial income taxes, and the federal Goods and Services Tax on expenses.

Its mandate is to connect and celebrate the Capital with every British Columbian through the delivery of outreach and engagement programs. The Commission is also responsible for the stewardship of its owned heritage buildings and preservation of the view corridor to the Capital. Revenues from property assets are used to fund core business activities on a self sustaining basis.

2. Summary of significant accounting policies

Basis of accounting

The financial statements are prepared in accordance with Canadian generally accepted accounting principles applied within the framework of significant accounting policies summarized below:

Changes in accounting policies

On April 1, 2007, the Commission adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"). As provided under the standards, the adoption of these recommendations was done without restatement of prior periods financial statements.

CICA Section 1506 accounting changes

This CICA Handbook section establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in estimates and corrections of errors. In particular, this section allows for voluntary changes in accounting policies only when they result in the financial statements providing reliable and more relevant information. Furthermore, this section requires disclosure of when an entity has not adopted a new source of generally accepted accounting principles that have been issued but are not yet effective.

CICA Section 3855 financial instruments – recognition and measurement

This CICA Handbook section establishes standards for recognition and measurement of financial assets, financial liabilities and non-financial derivatives. All financial instruments must be classified into a defined category, namely, held-to-maturity investments, held-for-trading financial assets and financial liabilities, available-for-sale financial assets, loans and receivables or other financial liabilities. Financial assets and liabilities are initially recognized at fair value with subsequent measurement based on classification. All financial instruments, including derivatives, are measured at fair value except for loans and receivables, held-to-maturity and other financial liabilities which are measured at amortized cost using the effective interest method. Unrealized changes in fair value and gains and losses of held-for-trading instruments are recognized in the statement of operations.

As a result of the adoption of the new standards, the Commission has made the following classifications:

- held-for-trading: cash and short-term investments
- loans and receivables: accounts receivable
- other financial liabilities: accounts payable and accrued liabilities and due to Province of British Columbia

Provincial Capital Commission
Notes to the Financial Statements
March 31, 2008

2. **Summary of significant accounting policies** (continued)

Cash and short-term investments

Cash and short-term investments are classified as "financial assets held-for-trading" and are measured at fair value. These financial assets are marked-to-market through net earnings and recorded as investment income at each year end. Cash and cash equivalents consists of cash and short-term investments of units in Province of British Columbia Pooled Investment Portfolios.

Financial instruments

The Commission's financial instruments consist of cash and short-term investments, accounts receivable, accounts payable and accrued liabilities, including amounts due to the Province of British Columbia. Unless otherwise noted, it is management's opinion that the Commission is not exposed to significant interest or foreign currency risks arising from these financial instruments. These financial assets are marked-to-market through net earnings and recorded as investment income at year end.

Capital assets

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution unless otherwise noted. The contribution of park lands and green spaces is valued at $1. The contribution of St. Ann's Academy, a nationally designated historical site, is valued at $1. Capital improvements to St. Ann's Academy paid for by the Commission are recorded at cost.

Amortization of capital assets is calculated on a straight-line basis over the assets' estimated useful lives at the following rates:

	Years
Buildings and improvements	40
Wharves	10
Furniture and equipment	5
Computer hardware and software	3
Specialized equipment	20

No amortization is recognized for work in progress on capital assets under development.

The Commission regularly reviews the carrying value of long lived assets and continually makes estimates regarding future cash flows and other factors to determine the value of the respective assets. If these estimates or their related assumptions change in the future, the Commission may be required to record impairment charges for these assets.

Revenue recognition

The Commission follows the deferral method of accounting for contributions. Deferred contributions are recognized as revenue in the year in which the related expenses are incurred, or as specified under third party agreements. Revenue received under tenant lease agreements and from future development sites currently used as parking lots are recorded on an accrual basis. Tenant income includes base rent, license fees and additional rent under lease agreements for building operating expenses, amortization and property management.

Use of estimates

In preparing the Commission's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

Provincial Capital Commission
Notes to the Financial Statements
March 31, 2008

2. **Summary of significant accounting policies** (continued)

Expenses

Expenses are presented by core business activity. A description of each core business activity is summarized below:

Programs

Outreach expenses and administration includes employee salaries and benefits, purchased services and professional support, administrative expenses and an allocation for head office operating expenses. Income received from the rental of facilities at St. Ann's Academy is reported in Revenue.

Expenses for BC150 Celebrations – Festival 150, and Greenways and Beautification projects have been funded from restricted net assets.

Properties

Expenses include operating expenses and amortization associated with revenue producing heritage buildings, Belleville port facilities, temporary parking lots, and the maintenance of parks and open space properties. Property management and administration expenses include employee salaries and benefits, professional support including legal, engineering, property management and accounting services, administrative expenses, and an allocation for head office operating expenses.

Corporate Support and Governance

Expenses include board and committee meetings, employee salaries and benefits, professional services and administrative expenses for corporate operations support, including operating expenses for the head office at 613 Pandora Avenue. A portion of head office operating expenses are allocated to Programs and Properties.

Employee benefit plans

The Commission and its employees contribute to the Public Service Pension Plan (the plan), a jointly trusteed pension plan. The board of trustees, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of the plan. The pension plan is a multi-employer defined benefit pension plan with approximately 52,000 active plan members and 32,000 retired plan members. The total assets of the plan at March 31, 2007 were $17.7 billion. Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The latest valuation as at March 31, 2005, indicated an unfunded liability of $767 million. The actuary does not attribute portions of the liability to individual employers.

The Commission also contributes through the provincial government payroll system for employer funded health care, employment and termination benefits as provided for under collective agreements and terms of employment. For 2007/08, the benefits contribution was 23.8% (2007: 24.6%) of salary costs. The Commission's total benefit expense for the year was $181,219 (2007: $167,578).

Defined contribution plan accounting is applied to these benefit plans as the Commission has insufficient information to apply defined benefit plan accounting. As such, the cost of these employee future benefits is recognized as an expense in the year that contributions are paid.

Provincial Capital Commission
Notes to the Financial Statements
March 31, 2008

3. Cash and short-term investments

	2008	2007
Cash	**$ 64,175**	$ 114,351
Short-term investments	**2,640,102**	2,012,687
	$ 2,704,277	$ 2,127,038

At March 31, 2008 short term investments which include marketable securities amounted to $2,640,102 reported at fair value (cost $2,623,974) as compared with $2,012,687 last year reported at cost (with a market value of $2,014,321). Due to new accounting standards with respect to financial instruments adopted by the Commission in the current year, short term investments have been measured and reported at their fair value at March 31, 2008, while the comparative year is reported at cost.

Investment income of $109,426 (2007:$96,109) reflects an average return of 3.9% (2007:4.2%).

4. Capital assets

	Cost	Accumulated Amortization	2008 Net Book Value	2007 Net Book Value
Land	$ 9,575,220	-	**$ 9,575,220**	$ 9,575,221
Buildings	10,381,555	3,753,059	**6,628,496**	6,733,716
Wharves	458,886	197,867	**261,019**	306,910
Belleville Terminal Project – development costs	175,000	-	**175,000**	175,000
Furniture and equipment	350,921	208,357	**142,564**	198,679
Specialized equipment	614,990	50,949	**564,041**	547,451
St. Ann's Academy	619,667	148,942	**470,725**	486,219
	$22,176,239	$4,359,174	**$17,817,065**	$18,023,196

The current assessed value of Commission properties is $116.5 million (2007: $106.8 million). This includes 60 parcels of land that make up parklands and green spaces with an assessed value of $31.4 million (2007: $27.9 million). The assessed value of land and buildings from other Commission owned properties, including St. Ann's Academy is $85.1 million (land, $49.6 million; buildings, $35.5 million) (2007: $78.9 million). In December 2007, PCC land with a book value of $1 was dedicated by the provincial government for road construction. The disposition of land was authorized by Order in Council 822/07.

St. Ann's Academy, excluding the Chapel and Interpretative Centre, is leased for 51 years to the Ministry of Labour and Citizens Services, Accommodation and Real Estate Services (ARES), formerly the BC Buildings Corporation, for $10, in exchange for building renovations completed in 1996. During the lease period, ARES is responsible for property management and capital maintenance of the building. At the end of the lease term all tenant improvements become property of the Commission.

Provincial Capital Commission
Notes to the Financial Statements
March 31, 2008

5. Deferred operating contributions

Transport Canada provided $1.5 million in cash in the 2002 fiscal year for the continued operation of the Belleville Port Facility. The contribution is restricted for eligible expenses to operate the port, as described in the Transport Canada Contribution Agreement dated December 4, 2001. In 2006, $145,750 was also spent on security improvements to dock facilities leased to Clipper Navigation Limited to bring the Port Facility to minimum standards. Any unused funds must be returned to Transport Canada after ten years of operations. Cash or short-term investments held at the end of the year subject to these restrictions total $1,078,037 (2007: $1,122,197).

	2008	2007
Opening balance	**$ 1,122,197**	$ 1,162,623
Less: revenue recognized for eligible expenses	**(44,160)**	(40,426)
Ending balance	**$ 1,078,037**	$ 1,122,197

6. Deferred capital contributions

Deferred capital contributions represent assets received through contribution or donation from the Province of British Columbia, Transport Canada and other third parties. Significant events are as follows:

- In 2002, Transport Canada contributed $2 million in land, buildings and wharves to the Commission. The $444,000 portion of the contribution allocated to buildings and wharves was deferred and is recognized as revenue on the same basis as amortization expense. The land contribution of $1,556,000 was accounted for as an increase to investment in net assets.
- In 2005, the Commission received $1,450,000 from the Ministry of Tourism, Sport and the Arts towards completion of structural repairs to the Crystal Garden. The contribution was recorded as a deferred capital contribution and is recorded as revenue to match the asset amortization expense. Revenue in the current year was $73,360 (2007: $27,000).
- In 2005/06, contributions of $676,845 received from Crystal Garden Partners Inc. (tenant) for the structural remediation of the Crystal Garden have been deferred and is recorded as revenue under the terms of the lease agreement. In April 2007, through the lease assignment to the City of Victoria, the City assumed the rights to the contribution balance of $470,818. This amount will be recorded annually as revenue over the balance of the initial ten year lease term, with the City provided with an equivalent credit towards annual rent payments.
- The balance of deferred capital contributions includes the net book values of the Crystal Garden and other buildings transferred from the Province to the Commission in prior years.

		2008	2007
Opening balance		**$ 3,625,036**	$ 3,947,064
Add: Crystal Garden building remediation			
Tenant contribution		**-**	29,270
Less: amounts amortized to revenue			
Tenant contribution – Crystal Garden		**(97,091)**	(206,027)
Provincial and federal contributions:			
Provincial – contributed assets	$165,952		
Federal - Belleville Port Facility	25,680	**(191,632)**	(145,271)
Ending balance		**$ 3,336,313**	$ 3,625,036

Provincial Capital Commission
Notes to the Financial Statements
March 31, 2008

7. Restrictions on net assets

At the discretion of the board of directors, the Commission may restrict net assets for specific uses. Current year activity is summarized in the Statement of Changes in Net Assets.

Greenways Program

Net assets of $95,000 are restricted for the Township of Esquimalt's South Coast Trail Project. The Board has approved an extension of the Commission's funding commitment to March 31, 2009.

BC150 Celebrations

The Board approved a $600,000 restriction of net assets to provide core funding for a planned event to be held in the Capital on BC Day 2008. The event, Festival 150, is part of a province wide celebration of the 150th anniversary of British Columbia as a crown colony. A total of $222,500 has been paid to the event producer for event management and production expenses to March 31, 2008.

Building Remediation

As part of its property stewardship responsibilities, the Board also restricts net assets for building remediation projects over $200,000 approved by Order in Council. At March 31, 2008 there were no restrictions for building remediation.

8. Related party transactions

In addition to the amount due to the Province of British Columbia, the Commission's shareholder, the Commission had the following transactions with the Province and its related entities:

- The Commission received compensation of $750,000 from the BC Transportation Financing Authority for Commission land dedicated for road construction by the provincial government. The proceeds of $645,367 are net of expenses for legal and real estate services.
- Rent revenue of $28,738 (2007: $28,738) was received from Ministry of Labour and Citizens Services, Accommodation and Real Estate Services (ARES) relating to St. Ann's Academy. In return, operating costs of $64,771 (2007: $51,970) relating to St. Ann's Academy were paid to ARES. A further $90,000 (2007: NIL) was paid to ARES for real estate services related to the Commission's property plan.
- Insurance costs of $160,685 (2007: $131,269) were paid to the Ministry of Finance, Risk Management Branch.
- The Province acts as fiscal agent for the Commission and also provides personnel and payroll services. Service charges were $12,560 (2007: $11,422).

Provincial Capital Commission
Notes to the Financial Statements
March 31, 2008

9. Commitments

At March 31, 2008, the Commission has commitments under various agreements as follows:

- BC150 Celebrations – Festival 150: based on the Board approved restriction of net assets, the Commission has a service agreement with an event producer with a total commitment of up to $600,000. To March 31, 2008, $222,500 has been expensed, with a commitment of up to $377,500 in 2008/09.
- Outreach: program commitments including the Student Travel Subsidy program total $170,505 (2007:$61,530). Student Travel Subsidy expenses are subject to completion of approved travel plans to the Capital by school groups in the 2008/09 fiscal year.
- Salaries and benefits: under the terms of the current BCGEU collective agreement, staff will receive a 2.5% wage increase effective April 1, 2008, and a further 2% effective April 1, 2009.
- Operating leases: the Commission has two operating leases for office equipment. One agreement runs to November, 2010 with a total commitment of $9,000. The other expires February, 2009 with a remaining commitment of $4,300.

10. Crystal Garden

For the current year, net revenue for the Crystal Garden building was $342,286 (2007: $256,892). A summary of revenue and expenses is as follows:

	2008	2007
Revenue		
Tenants	**$ 605,689**	$ 573,019
Contributions – contributed capital assets	**136,171**	89,810
	741,860	662,829
Expenses		
Operating expenses and administration	**197,461**	227,468
Amortization	**202,113**	178,469
	399,574	405,937
Excess of revenue over expenses	**$ 342,286**	$ 256,892

11. Comparative Figures

Certain 2007 comparative figures have been reclassified to conform to the presentation adopted in the current year.

CONTACT INFORMATION

For more information, please contact

Ray Parks, Chief Executive Officer
Provincial Capital Commission
613 Pandora Ave., Victoria BC V8W 1N8 Phone
(250) 953-8800
or visit our website at www.bcpcc.com

PROVINCIAL CAPITAL COMMISSION

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